

TOP MESSAGE



Naohide Goto
President

Reviewing from basics the measures that serve our customers and the world, and continuing to disseminate them

Learning from past failures, pursuing the essence of our work

In May 2023, Aichi Steel announced that it had shipped some specialty steel materials that exceeded the upper limit of the length tolerance of the customer's required specifications. It is significant to me that this matter was discovered just prior to my appointment as president. My very first task as president was to identify the root cause of this out-of-tolerance steel length and to work on organizational reform to prevent a recurrence.

To get to the bottom of the problem, I spent three months after my appointment talking with all our leaders at assistant manager level and above.

I spoke frankly with them about my view of the out-of-tolerance steel length issue and what I thought we should have done as leaders, and I asked them to give me their honest opinions, too. Through these interactions, I was painfully aware that we had lost the most important thing, our sense of being of service to our customers. I also found there were issues with our organizational structure for ensuring effective internal audits and other checks and balances.

After numerous discussions with the presidents of the in-house companies, a conclusion was reached that "leadership-level measures" and "auditing system improvements" were needed. Based on the recommendations of an outside special investigation committee, we launched our Quality Step-Up Plan Activity in November 2023. Through this activity, we are working to create a more open workplace culture. As president, I am in charge overall, and with our vice presidents and general managers as leaders for promoting activities, we are working to strengthen and improve areas such as awareness reform, HR evaluation systems, and quality assurance functions.

Again, one of the main reasons for the out-of-tolerance steel length problem was, in my view, that we had lost our sense of being of service to our customers. Six months have passed since the launch of the Quality Step-up Plan Activity,

but it will take some time for all members to fully understand our vision for the company and to see it as their own, and for it to be ingrained in their own conduct. As president, I will continue to review what "being of service to our customers" means and communicate this to our members.

Responding flexibly to changing circumstances

One of our main customers in the specialty steel electric furnace industry is the automotive industry. In this relationship, demand for specialty steel and forged products rises along with increased automobile production, leading to sales growth. Because of this connection, it is vital that we fulfill our responsibility to supply products that meet the steady demand of the automotive industry. This demand became unstable during the COVID-19 pandemic, which had a big knock-on effect on us, too. That said, I believe this was a good opportunity for us to reflect on how we can be more useful to our customers, even when order volumes not steady. The world is going through various changes, such as the transition to a decarbonized society due to climate change and the fragmentation of the international community, as well as the unstable supply and soaring prices of energy and resources. Many challenges need to be overcome to solve this, but few can be accomplished by our company alone. I think we are now in an era where we have to address issues by joining forces with our customers, suppliers, and other stakeholders. Especially in the automotive field, we will work with auto manufacturers and our other business partners to achieve decarbonization through a multi-pathway strategy that offers a wide range of options, from engine-driven vehicles powered by hydrogen or synthetic fuel (e-fuel) to all electric vehicles (HEV/PHEV/BEV/FCEV). The important thing is not only to keep pace with change, but also to have a strong desire to serve our customers by solving their problems and creating what they and the world need. I am convinced that by promoting such initiatives, our company will continue to be needed by our customers (i.e., society) in the future.

For us, collaboration with Toyota Group companies, especially Toyota Motor Corporation, is more important than ever. First of all, from the moment I became president, I have continued to engage in dialogue with the top management of each group company, in the belief that we can be more useful to the world and to the group if we have a better understanding of what is needed within the group and if we share more of our technologies and products with each other. There is still a perception within the Toyota Group that Aichi Steel is only a specialty steel manufacturer. Through dialogue, therefore, we make Toyota Group companies aware of our strengths and proprietary technologies other than specialty steel, while also striving to identify the issues facing each of them.

The external environment is also changing increasingly rapidly. An example of this is the electrification of automobiles. Demand will certainly increase over the medium to long term, but there are variations among countries and regions, and the overall pace of growth is slower than previously expected. Since electric vehicles use less specialty steel per vehicle, we have to consider new ways in which we can be of service, but we also have to be more flexible, taking into account social conditions such as the policies of different countries, the business strategies of automakers, and the market trends of engine-driven vehicles in order to determine "what is needed and where." The direction of change should become a bit clearer over the next three to four years. I think it is important for us to



accurately identify this direction and prepare ourselves slightly ahead of others. We intend to watch local trends and information carefully and make quick course adjustments as necessary, while keeping an eye on the larger trend of decarbonization.

Everyone committed to the new Medium-term Management Plan

In our FY2021-2023 Medium-term Management Plan, our operating profit target was 15.0 billion yen, versus an actual result of 10.3 billion yen. One reason given for this was a lack of growth in sales of specialty steel and forged products due to stagnant automobile production caused by disruption in the supply chain. We were impacted more than other companies in our industry, as our sales to the automotive industry account for a higher percentage of our total sales. The measures taken were undeniably too slow, because we lacked an adequate mechanism to deal with the sudden and large fluctuations in the volume of orders, which had been stable until then, a situation we had never experienced before. Although we have been engaged in efforts such as passing on price rises in raw materials and fuel to our sales prices, we have not yet moved on to proactive value-adding activities.

On the other hand, we are accumulating more new products and technologies than expected, with results such as potential commercialization of our Global Magnetic Positioning System and iron fertilizer, an agricultural material.

In formulating our new Medium-term Management Plan, we have reflected on our lack of preparation for changes in our external conditions, and conducted our deliberations paying particular attention to the ways in which we should make our structure more resilient to these environmental changes. I believe this needs to permeate the entire company, not only in our organization but also through our day-to-day operations. Reflecting on the problem of out-of-tolerance steel length, we have revised our organizational structure to strengthen our compliance functions, such as by establishing a headquarters directly under the president to ensure independence of our internal audit functions. We are also making significant changes in the way we develop and commercialize new products. Until now, we have conducted development starting with technologies that we owned. Starting from the customer's point of view, we get an accurate understanding of how our materials, components, and technologies, which are our strengths, can help, and propose solutions to social needs and issues that lie ahead, which leads to rapid development and commercialization. Accordingly, we have

established a system in which sales and development work together, integrating everything from product development to commercialization.

The slogan of our new Medium-term Management Plan is "I am a leader of change." In today's rapidly changing world, it is impossible for a company to survive by simply doing what it is given to do. Unless every one of us proactively thinks about what we can do in our own position and acts quickly, our company will be unable to cope with change. We wanted all of our employees to share this idea, so we discussed it with them and reached a decision. As the slogan implies, our first challenge over the next three years will be bottom-up change, with each one of us becoming a leader. We will then learn and gain insight from our experience, increasing the number of colleagues equipped with various problem-solving skills and able to think independently, and building up an organization that is resilient to change.

Continuing to meet customer needs

In view of future demographic and social structural shifts, demand for conventional specialty steel and forged products may be in gradual decline over the medium to long term. Even so, new needs and expectations from customers and society certainly exist, and will undoubtedly remain in the future. For example, the gears for e-Axle used in electric vehicles must be stronger than conventional gears in order to withstand the higher rotational speeds than in engines. In addition, we will carefully consider over the next three years whether we can meet new needs for stainless steel with resistance to hydrogen embrittlement in the energy sector using our existing facilities, or whether drastic investment will be required. In the forged products business, we will also take steps to improve efficiency. Manufacturing forged products requires dies and presses for each type, shape, and dimension. Automobile production also requires many types of forged products, and this will not change as electrification continues to progress. We are developing next-generation forging methods, such as a high-mix low-volume production line that can output a wide variety of forged products from a single unit.

Turning to overseas, we are committed to expanding our business in India, a particularly promising growth market in the Global South, which is seeing remarkable economic growth. In 2019, we invested in the Indian specialty steel manufacturer Vardhman Special Steels Limited. We have been working together on quality improvement and technical cooperation to expand manufacturing potential,



and we will continue to position them as a key partner and strengthen our relationship. Based at our five overseas forging sites (US, China, Thailand, Philippines, and Indonesia), we are strengthening our profitability while being ready to move at any time in response to new demand, supply chain changes, or other factors.

In the stainless steel business, we are proud to be the only company in Japan with an integrated system covering everything from manufacturing to design cooperation, fabrication, and on-site construction. Since we make all our own equipment, we know better than anyone else how to machine and use them. We will utilize this advantage and our proposal-making ability as we work to provide ever more useful services. In addition, we will strive to expand the application of stainless steel in the civil engineering and construction fields to create more demand. With our steel's high durability, corrosion resistance, and excellent lifecycle cost, we will provide the world and people with useful products to repair and renew aging social infrastructure such as road bridges and sluice gates.

In the smart business, we will help promote the electrification of automobiles with lead frames for power cards, for which we have increased our production potential. Thanks to this, they are now being used in all the electric vehicles of our major customers. Leveraging our accumulated technical capabilities in precision machining, surface treatment, and image inspection to further refine our quality and costs, we will maintain and expand our market share by ensuring our products continue to be the most useful. In neodymium magnets, we are also actively trying to be of service by proposing solutions to social issues such as resource conservation and easy recycling that reduce the risks involved in procuring rare earths and other resources.

In new businesses, one product that may be helpful in the future is an autonomous driving support system using GMPS (Global Magnetic Positioning System). This magnetic vehicle position detection system supports advanced vehicle control such as autonomous driving. It does this by detecting magnetic signals emitted by magnetic markers installed on the ground using MI Sensors, ultra-sensitive magnetic sensors mounted on a sensor module, to estimate the vehicle's position with a high degree of accuracy. In partnership with the national and local governments, we have conducted more than 30 verification trials and social installations aimed at the practical



application of autonomous driving. Due to systemic restrictions and other factors, however, I believe more time is needed for the application and commercialization of this technology in so-called open spaces, such as general roads and highways. In closed spaces such as factories and airports, on the other hand, practical application is already on the horizon and the range of application is expanding. First of all, we have begun to make concrete proposals to the Toyota Group, which owns numerous manufacturing plants on vast areas of land and has already begun to introduce the system at some of its plants. As this is an unmanned transport system, we can confidently recommend it not only to improve transport efficiency, but also as a solution to social issues such as labor shortages.

We will also focus on creating more new business. In April of this year, we established a New Business Development Dept. in our Marketing & Sales General Headquarters. We intend to expand the scope of our services and speed them up by proactively cultivating customer needs more than before, and by working in unison with our Research and Development Headquarters

to seamlessly link product planning, development, mass production, and sales.

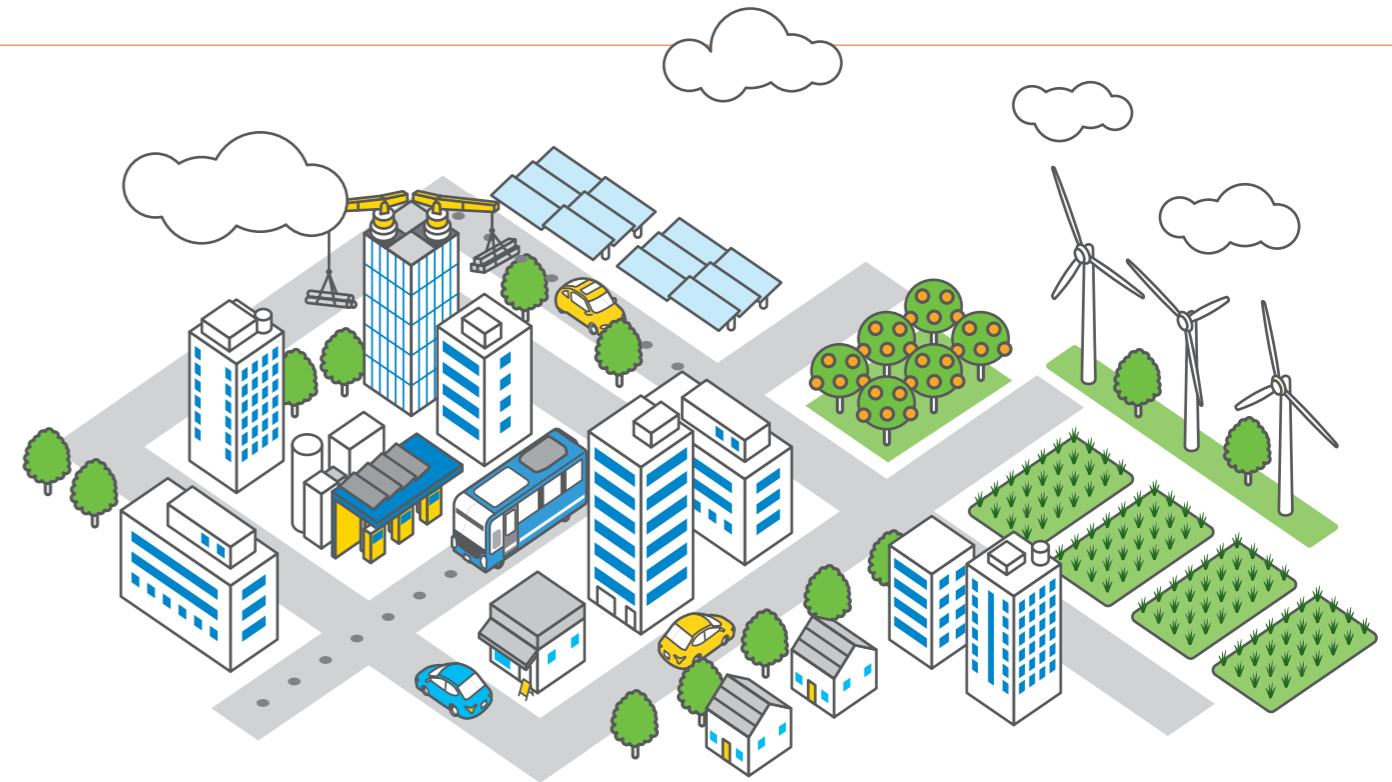
Specialty steel electric furnace maker's unique approach to achieving carbon neutrality

Our goal is to reduce CO₂ emissions by 50% by FY2030 compared to FY2013, and to achieve carbon neutrality by FY2050. Because specialty steel is manufactured by melting steel scrap in an electric furnace, CO₂ emissions from using electricity and city gas account for about 90% of our company's total CO₂ emissions. Accordingly, we are working toward carbon neutrality by focusing on (1) pursuing and deepening energy conservation, (2) utilizing renewable energy, and (3) developing and introducing decarbonizing technologies. Our path toward a 50% reduction by FY2030 has also become clearer. We are focusing particularly on pursuing and deepening energy conservation as a solution that can leverage our strengths. The entire company is involved, with each division, including the administrative division, setting its own energy conservation targets and management following up on monthly results. We are also working to take our activities to the next level by simplifying and shortening processes, utilizing bio-carburized materials, electrifying onsite logistics, and developing next-generation energy-saving electric furnaces that utilize Toyota Motor Corporation's heat management technology.

Management is about people. Promoting people-centric management

Human resource development is also a major focus for us. We proceed according to the motto, "firm but friendly." "Firm" means we aim to foster an attitude of tackling problems head-on by considering what needs to be done and what can be done to solve them, rather than simply giving up and lowering the bar whenever a problem arises. We believe that the more such personnel we develop, the more opportunities we will get to be of service to our customers (i.e., society), enabling us to keep moving forward boldly. "Firm but friendly" means that although we present our people with tough challenges, we also show a supportive attitude, kindly guiding them and thinking together about how solutions can be found.

I myself have also faced numerous difficult problems, but I had the support of my colleagues around me, who nurtured and taught me a lot as I strived to overcome these challenges.



I believe that if people with this kind of firsthand experience become leaders, our company will grow in a healthy way.

In introducing and operating our company structure, we have speeded up our decision-making process by transferring various powers to executives. In the future, we intend to maintain this direction, while increasing opportunities for cross-company discussion and examination of key issues. Decisions previously made within one particular department will now be made from a variety of perspectives, asking the question, "Is that really the right thing to do?" I believe this is necessary in terms of improving the quality of decision-making in this age when the correct answer can be hard to find.

As for developing the next generation of executives, I feel that management and execution functions have become more separated than in the past, so those on the executive side have fewer opportunities to come into contact with the management. Until now, selected personnel have been invited to participate in the Top Management Meeting to watch and learn from management team's discussions, but we will take this one step further and increase opportunities for them to participate in discussions.

A Message to Our Stakeholders

We recognize that shareholders and investors regard our company rather critically, as evidenced by our stock price

and other factors. Considering our industry's susceptibility to economic cycles and market conditions, we accept that we have failed to meet expectations in some areas. To maximize shareholder value and corporate value, we will strengthen the earning power of our core businesses and increase profitability through growth in new businesses. At the same time, we will consider the external environment and other factors, such as further selling of cross shareholdings, enhanced shareholder returns, and improved liquidity through stock splits, while also taking into account the opinions of our stakeholders.

It has been 84 years since our company was founded in 1940. The reason we have been able to stay in business for so many years is, I believe, because we have continued to serve our customers. We will continue to work with a sense of mission so that every one of our employees fully recognizes our company's raison d'etre, which is to be of service to our customers. We ask all of our stakeholders for your continued understanding and support going forward.

President

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